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SUBJECT: KAZAKHSTAN ECONOMIC AND ENERGY UPDATE, FEBRUARY 1 -  
FEBRUARY 14

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¶1. SUMMARY: This information is drawn primarily from the  
Kazakhstani local press and has not been verified for accuracy.

- Kazakhstan to Allow Islamic Banking
- Salary Ceiling for Top Managers of State Companies
- Ruling Party to Monitor National Fund
- Economic Statistics
- Environmental News
- Kazatomprom News
- Fitch Assesses Effect of Currency Devaluation
- New Chairman of Kazakhstan Electricity Association
- Energy Statistics

END SUMMARY.

KAZAKHSTAN TO ALLOW ISLAMIC BANKING

¶2. On February 12, President Nursultan Nazarbayev signed  
legislation introducing amendments to the Civil Code, Tax Code, and  
laws on banking, licensing, securities, and investment funds that  
will allow for the introduction of Islamic financial instruments in  
Kazakhstan. The amendments prohibit "usurious fees" according to  
the principles of Islamic banking.

SALARY CEILING FOR TOP MANAGERS OF STATE COMPANIES

¶3. On February 10, Prime Minister Karim Masimov called on state  
holding companies to set a salary ceiling for top managers, under  
which their salaries would not exceed the Prime Minister's  
(official) salary of 700,000 tenge (approximately \$4,729) per month.  
In mid-January, Kairat Aitekenov, a managing director of the  
Samruk-Kazyna National Welfare Fund, reported that the monthly  
salaries of Samruk-Kazyna's chairman and board members did not  
exceed 1.3 million tenge (approximately \$8,783).

## RULING PARTY TO MONITOR NATIONAL FUND

14. On February 13, President Nazarbayev announced that a commission will be established under the Nur Otan ruling party to monitor the use of money taken from the National (Oil) Fund for the government's program to mitigate the effects of the global financial crisis. Approximately \$8.1 billion will be withdrawn from the National Fund, which, according to the National Bank, held approximately \$27.96 billion on January 31.

## ECONOMIC STATISTICS

15. In January, Kazakhstan's gold and currency reserves, including the gross reserves of the National (Oil) Fund and the National Bank, fell by 1.1% from the previous month, to \$46.244 billion. According to the National Bank, Kazakhstan enjoyed a balance of payments surplus in 2008 of \$8.9 billion, compared to a deficit of \$7.3 billion in 2007. Exports totaled \$72 billion for 2008, including \$43.5 billion of oil and gas condensate. Imports in 2008 totaled \$38.5 billion, resulting in a trade surplus of \$33.5 billion.

## ENVIRONMENTAL NEWS

16. On February 2, Minister of Environmental Protection Nurlan Iskakov proudly announced that waste emissions in 2008 were 149,000 tons lower than the previous year. In response, Yerlan Nigmatullin, Chairman of the Environmental Committee of the Mazhilis (the lower house of parliament), maintained that the decrease in emissions resulted not from the good work of the Environmental Ministry, but from a reduction in industrial production due to the global financial crisis. Minister Iskakov criticized regional governments for failing to invest resources in order to address pressing environmental issues. For example, according to Iskakov, in 2008,

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regional governments received 66 billion tenge (approximately \$445 million) in ecological fees, of which only 30 percent has been used to fund environmental projects. Nigmatullin suggested replacing environmental fines with an environmental tax, which, in his opinion, would enable the government to invest funds more effectively. Prime Minister Masimov has also spoken out in favor of this proposal. "It is time for Kazakhstan's environmental legislation to meet world standards," Masimov stated. (NOTE: Revenue from an environmental tax would go to the national budget, while revenue collected from environmental fines stays at the regional level. END NOTE.)

17. On February 5, the Tax Code was amended to accommodate complaints from members of the Mazhilis that the tax rate for industrial emissions, including gas flaring, had been set too low. At the request of the Mazhilis, sulfur oxide, nitrogen oxide, soot, hydrogen sulfide, and mercaptans -- which constitute 92% of all atmospheric emissions in Kazakhstan -- were included in the list of pollutants subject to taxation.

18. On February 11, a joint commission of the Ministry of Environmental Protection and the Ministry of Agriculture released the findings of their investigation into the death of 32 Caspian seals in 2008. According to Murat Rakhimberghenov, Chairman of Ecological Regulation and Control at the Ministry of Environment, the seals died due to a lack of oxygen and the spread of a deadly virus among the seal population. The commission found no evidence that oil spills or emissions were responsible for the deaths of the seals. In 2007, nearly 1,000 seals died off Kazakhstan's Caspian Sea shore. The seal population in the Caspian currently numbers between 350,000 and 400,000.

19. Rakhimberghenov also announced that the Ministry of Environment has ordered the North Caspian Operating Company operating the Kashagan oil field to build enclosed sulfur storage facilities. This announcement came despite the fact that the company has already completed construction on several new four-million ton sulfur storage units, which were inspected and approved by the Ministry of Environment.

## KAZATOMPROM NEWS

¶10. At a press conference on February 3, Mukhtar Zhakishhev, president of national nuclear company Kazatomprom, announced that his company would sign a contract to supply uranium to India within one month. (NOTE: Kazatomprom and the Nuclear Power Corporation of India Limited signed an MOU on cooperation during President Nazarbayev's January trip to New Delhi. END NOTE.) Zhakishhev also announced a joint venture with China's Guangdong Nuclear Power Group, which will assume 49% ownership of the Irkol and Semizbay uranium mines. The two mines contain an estimated 1,250 tons of uranium. Zhakishhev reiterated Kazatomprom's plan to become the world's leading uranium producer in 2009, and said uranium output will reach 11,935 tons this year, if demand holds up.

## FITCH ASSESSES EFFECT OF CURRENCY DEVALUATION

¶11. According to a February 6 statement by the Fitch rating agency, KazMunayGas (KMG) is less vulnerable to exchange rate shocks than other Kazakhstani companies, since 48% of its revenue is generated in foreign currency. However, Fitch warns that if there is a further devaluation of the tenge, the company's credit rating could suffer.

## NEW CHAIRMAN OF KAZAKHSTAN ELECTRICITY ASSOCIATION

¶12. On February 5, Shaimerden Urazalinov was named CEO of the

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Kazakhstan Electricity Association (KEA), a non-governmental organization representing over 30 companies in the electrical power industry. Urazalinov is reportedly highly respected by the citizens of Karaganda oblast. From 1999 to 2007, Urazalinov was a member of the Senate (upper house of parliament) representing Karaganda oblast, where he developed a reputation as an honest man who improved social services in Karaganda and refused to play favorites or accept kickbacks.

## ENERGY STATISTICS

¶13. According to the National Statistics Agency, in January, Kazakhstan produced 6.426 million tons of crude oil and gas condensate, an increase of 7.5% over the same period in 2007. The Government of Kazakhstan also estimated that natural gas production in January would be approximately 1.54 billion cubic meters, a decrease of 2.9% year-on-year.

## HOAGLAND